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Management

# the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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## CPP retirement pension sharing

A tax planning strategy involving your retirement pension

**You may be able to share your Canada Pension Plan (CPP) retirement benefits with your spouse to reduce your family's overall taxes. By applying to share your pensions, the lower-income spouse can receive a portion of the higher-income spouse's retirement pension and pay tax on that pension income at their lower marginal tax rate.**

*Any reference to a "spouse" in this article also refers to a common-law partner.*

### Are you eligible to share CPP?

To qualify for CPP retirement pension sharing:

- You and your spouse must both be 60 years of age or over;
- You must be living with your spouse; and
- You must have lived with your spouse during the time you, your spouse or both of you contributed to CPP.

In addition, if you both contributed to CPP, you must both be receiving your pension, or have applied to receive it. If only one of you contributed to CPP, the spouse who contributed to CPP must be receiving their pension or have applied to receive it.

### How does CPP pension sharing work?

CPP pension sharing generally doesn't result in an equal split of your CPP retirement benefits. The portion of your and your spouse's CPP retirement pension that can be shared is based on the number of months you and your spouse lived together during your "joint contributory period." Your contributory period starts when you are 18 and ends at the earliest of age 70 or when you start taking CPP retirement pension or death. Your joint contributory service the period of time when either one of you could have contributed to the CPP. If one of you never contributed to CPP, you can both share one CPP pension. Note that the CPP post-retirement benefit is not eligible for pension sharing.



CPP pension sharing does not change the total CPP you would have otherwise received as a couple; however, it may result in an overall family tax savings. This may be the case if one spouse is receiving more CPP and is in a higher tax bracket than the other spouse.

Note that CPP pension sharing may not benefit you in every case. For example, if the retired lower-income spouse has accumulated a larger pension entitlement than the higher-income spouse during the time they've lived together, there may be no benefit to pension sharing.

### An example of CPP pension sharing

Alice and Brad are 65, married and are both receiving their CPP retirement pensions. Without CPP pension sharing, Alice's CPP retirement pension is \$900 per month. Of that, \$200 is based on contributions made by Alice before marrying Brad, leaving \$700 of her pension as eligible for splitting. Brad's retirement pension is \$500 per month, of which \$100 is based on contributions he made before marrying Alice. This leaves \$400 of his pension as eligible for sharing. Their qualified financial advisor urged them to consider pension sharing as a way of reducing their overall tax liability.

Alice and Brad's total CPP before sharing is \$1,400. After subtracting the portion of Alice's CPP that was earned before marriage (\$200), and Brad's portion earned before marriage (\$100), the two of them can split the remaining \$1,100. They would each receive half of the \$1,100 or \$550.

After sharing, Alice would receive her \$200 plus the shared amount of \$550, or \$750 per month. Brad would receive his \$100 plus the shared portion of \$550 for a total of \$650 per month. Note that in total, they are still receiving a total of \$1,400 per month.

If Alice and Brad were common-law, the same calculation would be done assuming they were together for the same times as they were married.

### How do you apply for CPP pension sharing?

If you and your spouse meet the eligibility requirements and would like to share your CPP retirement pensions, you can apply through Service Canada. CPP pension sharing begins as soon as Service Canada approves your application. You cannot backdate your application.

If you have not yet applied for your CPP retirement pension and would like your pension sharing to be effective immediately, you can include an application for pension sharing with your CPP retirement pension application. You cannot submit your pension sharing application before you apply for CPP.

CPP pension sharing does not change the total CPP you would have otherwise received as a couple; however, it may result in an overall family tax savings.

The application form for CPP pension sharing is available on the Service Canada website. You must include certain supporting documents with your application. Depending on your situation, this may include:

- A certified copy of your marriage certificate; or
- A certified copy of a statutory declaration of a common-law union. This form can be obtained from Service Canada's website.

Mail the completed application form, with the supporting documents, to the Service Canada office nearest to you. There is a list of Service Canada offices on the application form.

### Spouses who contribute to different plans

If you receive CPP retirement benefits and your spouse receives Québec Pension Plan (QPP) retirement benefits, pension sharing will be similar to both of you receiving benefits under the same plan. Each of you should complete and submit the application form relevant for the pension plan you are receiving and indicate that your spouse contributed to the other plan.

### When does CPP pension sharing end?

CPP pension sharing ends when the earliest of the following events occurs:

- The month either spouse passes away;
- The month you divorce;
- The month the spouse who has never contributed to the CPP starts contributing to CPP; or
- The month after the month Service Canada approves a written request by both of you to terminate the CPP pension sharing arrangement.

If spouses or common-law partners separate while sharing their CPP pensions, CPP pension sharing will end the 12<sup>th</sup> month following the month in which they started to live separate and apart.

If spouses or common-law partners separate while sharing CPP and QPP pensions, pension sharing will end the 12<sup>th</sup> month after they separate or the month a legal separation took place.

## Conclusion

When you're evaluating whether or not to share CPP with your spouse, consider the income you and your spouse expect to receive from the plan as well as your other sources of retirement income. You should then evaluate your expected income levels to determine whether pension sharing may help minimize your family's overall tax bill.

*This article may contain several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.*



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